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INTRODUCTION

Summit Pointe entered into contracts with the Michigan Family Independence Agency (FIA) to perform the fiduciary function for the Strong Families/Safe Children (SF/SC) and Child Protection (CP) programs in Calhoun County. The 1998 contract number was FID 98-13001 for a total of \$359,700, including amendments. \$242,700 of this total was funded by Catalog of Financial Domestic Assistance (CFDA) #93.556, Family Preservation and Support Services, and \$117,000 by CFDA #93.556 and #93.558, Temporary Assistance to Needy Families (TANF). The 1999 contract numbers and amounts were FID 99-13002 for \$228,138, funded 100% by CFDA #93.556, and FID 99-13001 for \$117,547, funded 100% by CFDA #93.558. Collectively, these contracts covered a period from October 1, 1997 through September 30, 1999. These contracts state that Summit Pointe was to be reimbursed for its actual costs incurred in providing the services. Payment was made quarterly in advance by FIA.

SCOPE

The Office of Internal Audit performed an audit of Summit Pointe for the period October 1, 1997 through September 22, 1999 to determine if they complied with the terms of their contracts with FIA, and if systems, procedures and monitoring operations of Summit Pointe were in compliance with standards, policies and regulations as established by FIA and Federal guidelines. Our audit included Summit Pointe's sub-contacting policies, monitoring process, equipment purchasing policy, and year end closeout procedures. Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

EXECUTIVE SUMMARY

Based on our audit, we concluded that Summit Pointe was not in compliance with some of the provisions of its contract with FIA, and standards, policies and regulations established by FIA

and Federal guidelines. The lack of compliance with Federal Office of Management and Budget Circular A-133 will result in a significant amount of questioned costs if Summit Pointe fails to implement appropriate corrective action. A description of all the areas of noncompliance and our recommendations for corrective action follow. Summaries of audited expenditures for each contract are included at the end of this report.

SUMMIT POINTE RESPONSE

Summit Pointe did not respond to our draft report.

FINDINGS AND RECOMMENDATIONS

Late Reimbursement of Excess Advance

1. Summit Pointe did not reimburse FIA timely for the amount of advance payment Summit Pointe had received in excess of the amount expended for contract FID 98-13001. This amount was paid on December 18, 1998. According to the contract requirements, Section C, sub-section i, Summit Pointe was to cost settle actual expenditures with FIA within 45 days of the end of the contract, which was 9/30/1998.

WE RECOMMEND that the FIA Field Operations Administration (FOA) work with Summit Pointe to cost settle within the time limits as specified in the contract.

FID 98-13001 Year End Closing

2. Summit Pointe was paid \$174,844.07 in excess of their actual, allowable costs for contract # FID 98-13001. Summit Pointe received \$359,700.00 for the entire contract in advance. Actual, allowable costs for this contract were \$147,934.27. Summit Pointe reimbursed FIA \$36,921.49 at the end of the contract period. Therefore Summit Pointe

owes FIA \$174,844.07 (\$359,700.00 - \$147,934.27 - \$36,921.66). (See Summary of Audited Expenses for FID 98-13001.)

WE RECOMMEND FOA initiate the process to recoup \$174,844.07 from Summit Pointe.

FID 98-13001 Challenge Grants in Wrong Line Item

3. Summit Pointe charged costs incurred for the Challenge Grants to the Specific Assistance line item. Challenge Grants were contracts to provide a specific service, and costs incurred for them should have been charged to the Contractual Services line item. For 1998, Specific Assistance should be reduced by \$46,567 and Contractual Services increased by \$20,677. (This is net of audit adjustments for these line items. See Summary of Audited Expenses for FID 98-13001.)

WE RECOMMEND FOA ensure that Summit Pointe properly charges Challenge Grant costs in Contractual Services line item.

Undocumented and Unallowable Challenge Grants

4. Summit Pointe did not have proper documentation on file for some of the Challenge Grants charged to FIA. In addition, some of the Challenge Grants were not included in the master plan as submitted to the FIA program office. The total amount of grants not included or not documented was \$21,122. Also, Summit Pointe charged \$4,768.00 inappropriately to Challenge Grants. The \$4,768.00 included \$4,725.00 paid to FIA which should have been charged to Non-Categorical – Emergency and \$43.00 paid to the Intermediate School District which should have been charged to Miscellaneous – SF/SC HSCC Meetings. The audit adjustment of \$21,122.00 is included in the unallowable expense discussed in finding # 2. The audit adjustment of \$21,122.00 and the line item

adjustments of \$4,725.00 and \$43.00 are included in the Summary of Audited Expenses for FID 98-13001 at the back of this report.

WE RECOMMEND FOA ensure that Summit Pointe properly charges the correct amounts to the proper line items.

WE ALSO RECOMMEND that FOA either allow Summit Pointe to amend their plan to include the Challenge Grants that were not included and recoup only the undocumented portion of costs charged, or initiate the process to recoup the entire \$21,122 from Summit Pointe.

REACH Program for 1998

5. Summit Pointe did not have adequate documentation from its subcontractor, Albion Public Schools, to support costs of \$94,150 charged to the REACH Program. Albion Public Schools did not have an allocation plan to support the division of their costs among their various programs. In addition, Summit Pointe paid the City of Albion \$17,000 for one police officer, although Summit Pointe did not have a contract with the City for this service. The combined total paid to the Albion Public Schools and the City of Albion was \$111,150 (\$94,150 + 17,000). This amount is included in the unallowable expenses in Finding #2. (See Summary of Audited Expenses for FID 98-13001.)

WE RECOMMEND FOA obtain the Albion Public Schools 1998 cost allocation plan from Summit Pointe, review it to determine if costs were correctly allocated, and initiate the process to recoup all costs improperly allocated to contract # FID 98-13001.

WE ALSO RECOMMEND FOA either allow Summit Pointe to amend its contract to include the sub-contract with the City of Albion for the police officer, or initiate the process to recoup \$17,000 from Summit Pointe.

FID 99-13002

6. Summit Pointe's expense schedule listed total expenses of \$183,509.41 for contract # FID 99-13002. Summit Pointe had spent \$130,333.58 on allowable expenditures for this contract as of September 22, 1999. \$50,640.33 of the total listed expenses were not properly documented, and an additional \$2,535.50 were not included in the plan. An additional \$13,300 in expenses was allowable, but was not properly classified. (See Summary of Audited Expenses for FID 99-13002.)

WE RECOMMEND FOA ensure that Summit Pointe properly charge the correct amounts to the proper line items.

WE ALSO RECOMMEND FOA initiate the process to recoup \$50,640.33 from Summit Pointe for undocumented expenses.

IN ADDITION, WE RECOMMEND that FOA either amend its contract with Summit Pointe to include the expenses not included in the original plan, or initiate the process to recoup \$2,535.50 from Summit Pointe.

FID 99-13001

7. Summit Pointe's expense schedule listed total expenses \$111,634.74 for contract # FID 99-13001. This amount includes \$94,150.00 in REACH program expenses paid to Albion Public Schools that were not supported by a cost allocation plan to justify the charges to the program.

WE RECOMMEND FOA obtain the Albion Public Schools 1999 cost allocation plan from Summit Pointe, review it to determine if costs are correctly allocated, and initiate the process to recoup all costs not properly allocated to contract FID 99-13001.

Conflict of Interest

8. Summit Pointe has a contract with The United Way for the services of the SF/SC Coordinator. This person is also a member of the Summit Pointe Board of Directors. The Contract states that Summit Pointe, “must disclose ownership information for any subcontract that ... a person within the Management of the Contractor... has direct or indirect ownership...” Because the Coordinator is also a member of the Summit Pointe Board of Directors, this should be disclosed to the FIA Office of Contracts and Rate Setting.

WE RECOMMEND FOA ensure that Summit Pointe properly notifies the FIA Office of Contracts and Rate Setting of the relationship of the Coordinator to Summit Pointe and The United Way.

Monitoring

9. Summit Pointe did not monitor the activities of the sub-recipients as necessary to ensure that federal awards were used for authorized purposes in accordance with laws, regulations, and the provisions of the contracts or grant agreements, and that performance goals were achieved. These monitoring activities are required by Office of Management and Budget (OMB) Circular A-133 Subpart D.400(d)(3)

WE RECOMMEND FOA ensure that Summit Pointe establishes monitoring procedures to be in compliance with laws, regulations, and the provisions of OMB Circular A-133.

Contract Language for Sub-recipients

10. Summit Pointe did not always include the Catalog of Federal Domestic Assistance number (CFDA#) and Federal Financial Participation percentage (FFP%) in its subcontracts. Federal Office of Management and Budget (OMB) Circular A-133, Subpart D.400 requires recipients to inform their sub-recipients of the amount of federal assistance and the CFDA number associated with those funds.

WE RECOMMEND FOA work with Summit Pointe to ensure they comply with Federal requirements for sub-recipients.

Sub-recipient Single Audit Reports

11. Summit Pointe did not have a process in place to identify sub-recipients that received in excess of \$300,000 in federal funds. OMB Circular A-133 requires that the recipient of federal funds identify sub-recipients who receive in excess of \$300,000 in federal funds, obtain a copy of the Single Audit Report for those agencies, and ensure that appropriate corrective action is taken for all findings and questioned costs identified in the subrecipient's Single Audit Report. Failure to obtain and review the audit reports and take appropriate corrective action for findings and questioned costs could result in loss of Federal funds for the program.

WE RECOMMEND FOA ensure that Summit Pointe implements procedures to meet the requirements for reviewing Single Audit Reports of its sub-recipients.

Vendor or Subrecipient Determination

12. Summit Pointe did not have a process in place to determine whether their subcontractors were vendors or sub-recipients. Summit Pointe is required to follow all OMB Circular A-

133 requirements for sub-recipients, but those requirements do not apply to vendors. Proper identification of sub-recipients and vendors is necessary to ensure compliance with OMB Circular A-133.

WE RECOMMEND FOA ensure that Summit Pointe implements a process to determine whether each subcontractor is a sub-recipient or a vendor.

Subcontracting Fiduciary Responsibilities

13. A Summit Pointe employee did not always approve invoices from sub-recipients, as required by Section C. #1b of the contract. In some instances the Collaborative Coordinator, who was employed by The United Way, approved the invoices for payment. A Summit Pointe employee must approve sub-recipient expenses.

WE RECOMMEND FOA ensure that Summit Pointe is aware of the requirement that a Summit Pointe employee must approve all sub-recipient expenses.

Penalty for Noncompliance with OMB Circular A-133

14. OMB Circular A-133 requires that federal funds be included as questioned costs by auditors for programs where the pass through agency did not monitor the sub-recipient or review their Single Audit Report and take appropriate corrective action. As noted above, Summit Pointe did not meet these oversight requirements for its sub-recipients. If proper oversight requirements are not implemented, it will be necessary for FOA to start the process to recoup the entire amount of federal expenditures for these contracts for 1998 and 1999.

WE RECOMMEND that FOA determine if Summit Pointe complied with all monitoring and oversight requirements of OMB Circular A-133 subsequent to the completion of our

audit, and initiate the process to recoup all federal funds expended under these contracts for which Summit Pointe has not complied with the monitoring and oversight requirements.

<u>Contractual Services:</u>		
Balance as reported to FIA	\$195,549.96	
Plus Challenge Grants	\$20,677.00	(Total \$46,567 - \$25,890 not properly documented.) See finding #3 and #4.
Less REACH	<u>(\$111,150.00)</u>	No allocation plan. See finding #5.
Total Audited Contractual Services	\$105,076.96	
<u>Specific Assistance:</u>		
Balance as reported to FIA	\$87,116.51	
Less Challenge Grants	(\$46,567.00)	Transfer to Contractual Services.
Non-Categorical:		
Less Supportive	(\$31,278.26)	Expenses not properly documented.
Plus Emergency	\$4,725.00	From Challenge Grant. See finding #4
Less Emergency	(\$1,659.66)	Expenses not properly documented.
Less Preventive	<u>(\$3,684.00)</u>	Expenses not properly documented.
Total Audited Specific Assistance	\$8,652.59	
<u>Miscellaneous:</u>		
Balance as reported to FIA	\$40,111.87	
Less Evaluation, Assessment, and Tracking	(\$1,680.00)	Amount to Coordinator to pay Focus Groups.
Plus Training	\$1,000.00	Paid to Intermediate School District(ISD) from Emergency.
Plus SF/SC Meeting	\$43.00	Paid to ISD from Challenge Grants. See finding #4
Less Training	<u>(\$2,194.36)</u>	\$1,172.65 to a Board staff, \$499.21 to a contract provider, \$522.50 to a Kinship provider. Documentation not on file to determine if program related.
Total Audited Miscellaneous	\$37,280.51	
Less Difference	<u>(\$3,075.79)</u>	Difference in final expense reported to FIA and actual (\$322,778.34 – 319,702.55 = \$3,075.79)
Total Audited Expense	\$147,934.27	Total audited 1998 expense.
Total Paid	\$359,700.00	
Less audited expense	(\$147,934.27)	
Less reimbursed	<u>(\$36,921.66)</u>	
Total Audit Adjustment in 1998	\$174,844.07	See finding #2

<u>Contractual Services:</u>		
Balance per Summit	\$84,164.74	
Plus Challenge Grants	<u>\$13,300.00</u>	Total \$40,000 - \$26,700 not properly documented.
Total Audited Contractual Services	<u>\$97,464.74</u>	
<u>Specific Assistance:</u>		
Balance per Summit	\$82,887.84	
Less Challenge Grants	(\$40,000.00)	Transfer to Contractual Services.
Less Non-Categorical:		
Supportive	(\$10,692.10)	Expenses not properly documented.
Emergency	(\$2,996.97)	Expenses not properly documented.
Preventive	(\$3,395.00)	Expenses not properly documented.
Less Adoption	(\$2,000.00)	Adoption Cradle for Adoption Conference in California
Less Foster Care	(\$6,356.26)	Expenses not properly documented.
Less Kinship Care	(\$2,191.84)	Expenses not properly documented.
Less Crisis Counseling	<u>(\$535.50)</u>	Charges for Counseling performed in office.
Total Audited Specific Assistance	<u>\$14,720.17</u>	
<u>Miscellaneous:</u>		
Balance per Summit	\$16,456.83	
Plus Training	<u>\$1,691.84</u>	Amount charged to Kinship Care for two Board members to go to Atlanta Conference.
Total Audited Miscellaneous	<u>\$18,148.67</u>	
Total Audited Expense	<u>\$130,333.58</u>	Total audited expense as of September 22, 1999.
Total Expense per Summit Schedule	<u>\$183,509.41</u>	
Total Audited Adjustment in 1999 for FID 99-13002	<u>(\$53,175.83)</u>	See finding #6. (\$183,509.41 – 130,333.58)

Total Expense per Summit at 9/22/99	\$111,634.74
Less Albion Public Schools	<u>(\$94,150.00)</u> No allocation plan. See finding #7
Total Audited Expense at 9/22/99	<u>\$17,484.74</u>
 Total Audited Adjustment in 1999 for FID 99-13001	 <u>(\$94,150.00)</u> See finding #7.